

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7338

Petition of Central Vermont Public Service)
Corporation for Consent to extend Letters of Credit)
and Reimbursement Agreements and Guaranty with)
Citizens Bank of Massachusetts regarding Millstone)
Pollution Bonds, Seabrook Pollution Bonds and)
East Barnet Hydroelectric Bonds, and to Provide)
Security with Existing First Mortgage Bonds, Series)
PP, QQ and RR, issued July 30, 1999)

Order entered: 9/26/07

I. INTRODUCTION

On July 30, 2007, Central Vermont Public Service Corporation ("CVPS") and Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc. ("CV EBH" and collectively where appropriate, "CVPS" or the "Company") filed a petition pursuant to 30 V.S.A. § 108(a) with the Vermont Public Service Board ("Board") seeking approval to: (a) extend three Letters of Credit and Reimbursement agreements; and (b) renew a Guaranty under CV EBH's reimbursement agreement, with RBS Citizens¹ ("Citizens Bank"). The Letters of Credit and Reimbursement Agreements and the Guaranty (hereafter referred to as the "security instruments") are due to expire November 30, 2007. The purpose of the proposed security instruments is to continue Citizens Bank's first priority interest in existing first mortgage bonds that were issued in 1999 to fund CVPS's ownership in the Millstone and Seabrook Nuclear Plants and the East Barnet hydroelectric facility.²

On September 11, 2007, the Vermont Department of Public Service ("Department") informed the Board that it had reviewed the petition and supporting documentation. Based on its review, the Department recommended that the Board find CVPS's petition to be consistent with

1. Successor to Citizens Bank of Massachusetts.

2. Such security instruments are secured by existing Series PP,QQ and RR bonds issued July 30, 1999.

the general good without hearing or further investigation. On September 12, 2007, the Department also determined that CVPS's filing was consistent with the Vermont Electric Plan, pursuant to 30 V.S.A. § 202(f).

On September 19, 2007, CVPS amended its petition. The amendment included a change in the terms of the security instruments to allow for the Company's consolidated leverage ratio to be less than or equal to 0.65 to 1.00.³ The current allowed consolidated leverage ratio is less than or equal to 0.50 to 1.00. According to CVPS, the proposed change permits CVPS to complete its proposed financing to acquire Vermont Transco, LLC equity units. By separate letter, the Company also informed the Board that CVPS accepted the Department's condition that its recommendations to the Board could not be construed as an endorsement of any changes in CVPS's capital structure or its cost of capital that may result from the proposed financing actions, or approval of the use of funds raised by the financing proposal.

Based on the evidence presented and the Department's recommendation, I find that approval to extend the security instruments is appropriate and that such approval may occur without hearing or further investigation. The proposed security instruments would extend the terms of existing security arrangements with Citizens Bank and therefore maintain the financial stability of the Company. By extending the terms of the existing security instruments, CVPS would also avoid having to repurchase outstanding bonds. I also recommend that the Board approve CVPS's request to amend the terms of its Letters of Credit to permit the Company's consolidated leverage ratio to be less than or equal to 0.65 to 1.00.

II. FINDINGS

In accordance with 30 V.S.A. § 8, I hereby report the following findings and conclusions.

1. Central Vermont and its subsidiary, Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc., are companies as defined by 30 V.S.A. § 201, and are subject to the jurisdiction of the Board pursuant to 30 V.S.A. § 203. Petition at 1.

2. The Company and CV EBH request Board approval to extend the three Letters of Credit, Reimbursement Agreements and the Guaranty under the East Barnet Reimbursement

3. Consolidated leverage ratio is based upon the ratio of CVPS's total indebtedness to total capitalization.

Agreement with Citizens Bank, for terms that expire November 30, 2008, and to provide security if required by Citizens Bank. Keefe pf. at 2.

3. The present Letters of Credit expire on November 30, 2007. The general terms and cost of these extended Letters of Credit are provided in the "Terms and Conditions," dated July 18, 2007, provided as Exhibit PJK-1 (the "Term Sheet"). Keefe pf. at 2.

4. If the security instruments are not extended by September 30, 2007, CVPS would be required to redeem the underlying industrial development bonds which these Letters of Credit secure. Keefe pf. at 2, 3.

5. Prior Docket Nos. 5043, 7002, 7096 and 7216 concern the Millstone bonds. These bonds were issued by the Connecticut Development Authority pursuant to an Indenture dated December 1, 1985, in the principal amount of \$5,000,000. These bonds mature on December 1, 2015. The purpose of the bond issue was to fund certain pollution control devices at the Millstone nuclear project, in which CVPS has an ownership interest. The Millstone bonds are currently secured by a Letter of Credit issued by Citizens Bank in the amount of \$5,133,562 (including \$133,562 of interest). In 2002, Citizens Bank replaced Toronto-Dominion as the bank issuing the Letter of Credit. CVPS's obligation to reimburse Citizens Bank in the event of a draw on the Letter of Credit is contained in the Reimbursement Agreement with Citizens Bank, dated March 1, 2002, as originally approved in Docket No. 5043 and as amended and approved in that docket and in Docket Nos. 7002, 7096 and 7216. Keefe pf. at 3, 4.

6. Prior Docket Nos. 4945, 7002, 7096 and 7216 concern the Seabrook bonds. These bonds were issued by the New Hampshire Industrial Development Authority pursuant to an Indenture dated December 1, 1984, in the principal amount of \$5,500,000. These bonds mature on December 1, 2009. The purpose of the bond issue was to fund certain pollution control devices at the Seabrook nuclear project, in which CVPS had an ownership interest at the time of the issuance of the bonds. The Seabrook bonds are currently secured by a Letter of Credit issued by Citizens Bank in the amount of \$5,736,125 (including \$286,125 of interest). In 2002, the Company redeemed \$50,000 of the Seabrook Bonds, and the face amount of the Letter of Credit has been reduced accordingly. In 2002, Citizens Bank replaced Toronto-Dominion as the bank issuing the Letter of Credit. CVPS's obligation to reimburse Citizens Bank in the event of a draw

on the Letter of Credit is contained in the Reimbursement Agreement with Citizens Bank, dated August 1, 2002 (stated as March 1, 2002, in prior dockets in error), as approved in Docket No. 4945 and as amended and approved in that docket and in Docket Nos. 7002, 7096 and 7216. Keefe pf. at 4, 5.

7. Docket Nos. 4817, 7002, 7096 and 7216 concern the East Barnet bonds. These bonds were issued by the Vermont Industrial Development Authority pursuant to an Indenture dated December 1, 1983, in the principal amount of \$5,800,000. These bonds mature on December 1, 2013. The purpose of the bond issue was to fund development of a hydroelectric project owned by Central Vermont Public Service Corporation-East Barnet Hydroelectric, Inc., a wholly-owned subsidiary of the Company. The East Barnet bonds are currently secured by a Letter of Credit issued by Citizens Bank in the amount of \$6,015,275.35 (including \$215,275.35 of interest). CV-EBH's obligation to reimburse Citizens Bank in the event of a draw on the Letter of Credit is contained in the Reimbursement Agreement with Citizens Bank, dated August 1, 2002, as approved in Docket No. 4817 and as amended and approved in that docket and in Docket Nos. 7002, 7096 and 7216. CV-EBH's obligations to Citizens Bank are guaranteed by CVPS pursuant to the Guaranty, dated August 1, 2002, made by CVPS in favor of Citizens Bank, as approved in Docket No. 4817, 7002, 7096 and 7216. Keefe pf. at 5.

8. The interest rates for the bonds are: Millstone 3.61% (variable monthly); Seabrook 3.75% (fixed for 5-year periods); and East Barnet 3.69% (variable monthly). Keefe pf. at 6.

9. Citizens Bank has offered CVPS an extension of the security instruments through November 30, 2008. For this term, Citizens is charging a renewal fee of \$5,000 for all three facilities combined. There is an annual fee, payable quarterly in arrears, at a rate which is dependent upon CVPS's senior secure Credit rating. The annual fee is based upon the continuing security under the Company's First Mortgage Bonds. Exh. PJK-1; Keefe pf. at 6.

10. The Letter of Credit facilities had been secured by First Mortgage Bonds, Series PP, QQ and RR, issued July 30, 1999 (the "FM Bonds"). The granting of these security interests had been approved in prior dockets. In 2004, Citizens Bank agreed to release its security interest in those FM Bonds, and the FM Bonds were held in CVPS's Treasury. The FM Bonds continued to be "authorized and issued," but were not held as security by any party. CVPS acknowledged the

only purpose of these FM Bonds, as approved by both the Public Service Board and its Board of Directors, is for security for the Letter of Credit facilities. Keefe pf. at 6.

11. As a result of the credit rating downgrades, Citizens Bank requested in 2006 that the Company provide the security represented by the First Mortgage Bonds, Series PP, QQ and RR. Keefe pf. at 6, 7.

12. The re-granting to Citizens Bank of the security represented by the First Mortgage Bonds, Series PP, QQ and RR was approved in an Order entered September 27, 2006, in Docket No. 7216.

13. To continue the first mortgage priority of these extended Letters of Credit and Reimbursement Agreements, the existing First Mortgage Bonds, Series PP, QQ and RR, will remain in place. No new First Mortgage Bonds will need to be issued. Keefe pf. at 7.

14. The rate on the Letter of Credit facilities is based on the senior secured debt credit rating. The current senior secured rating applicable to CVPS's First Mortgage Bonds is BBB by S&P, which is still investment grade for secured debt. Pursuant to the pricing grid set out in the Terms and Conditions, the present rate for a secured facility is 90 basis points. Keefe pf. at 7.

15. For this renewal, incidental fees include \$150 per amendment, if any, and \$275 per drawing. The Company will pay the usual closing, legal and documentation expenses. Keefe pf. at 7, 8.

16. As CVPS has done in its prior financing dockets before the Board, it agreed to promptly inform the Board and Department of any adverse changes in any material terms of the transaction, and will file a set of the principal documents after the closing. Keefe pf. at 7, 8.

17. The extended Letters of Credit, Reimbursement Agreements and the Guaranty, and the security interests provided by the First Mortgage Bonds, Series PP, QQ and RR, are consistent with the Department's Vermont Twenty-Year Electric Plan. Keefe pf. at 8, 9; Department 202(f) determination letter of September 12, 2007.

18. Extending the Letters of Credit, as well as maintaining the underlying bonds in place now and in the future provides the Company with financial stability. In addition, extending the security provided by the Letters of Credit, maintaining the current rating of the underlying bonds, and avoiding the requirement to offer to repurchase the outstanding bonds, all contribute to the

financial stability of the Company. Keefe pf. at 8, 9.

19. The Company's and CV-EBH's Boards of Directors have approved these transactions. Exhibit PJK-4.

III. DISCUSSION

Based on the evidence, I conclude that CVPS's petition, as amended, to extend the terms of the existing security instruments would be consistent with the general good of the state. Extension of the security instruments would allow CVPS to continue to secure its Letters of Credit obligations under existing first mortgage bonds issued in July, 1999 and therefore contribute towards maintaining the Company's financial stability. By extending the terms of the security instruments, CVPS would also avoid the requirement of having to repurchase the bonds. In addition, approving CVPS's request to amend its security instruments to permit the Company's consolidated leverage ratio to be less than or equal to 0.65 to 1.00 would provide the Company with additional financial flexibility to complete a proposed purchase of Vermont Transco equity units. Thus, I recommend that the Board find that approval of CVPS's petition is consistent with the general good of the state and issue an order to that effect. It bears noting that my recommendation does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that CVPS may implement. Nothing in this recommendation shall preclude the Department or any other party, or the Board, from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.

Opportunity to File Exceptions and Present Arguments

By letter dated September 19, 2007, CVPS filed its waiver of rights and opportunity for a hearing under 3 V.S.A. § 811 and 30 V.S.A. § 108(a), respectively. By letter dated September 20, 2007, the Department also filed its waiver of rights and opportunity for a hearing under 3 V.S.A. § 811.

Dated at Montpelier, Vermont, this 26th day of September, 2007.

s/ Thomas S. Lyle

Thomas S. Lyle

Hearing Officer

IV. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings, Conclusion and recommendations of the Hearing Officer are adopted.
2. The terms and conditions proposed by Central Vermont Public Service Corporation to extend the three Letters of Credit and Reimbursement agreements, and the Guaranty under the CV - East Barnet Hydroelectric, Inc., with RBS Citizens, for terms expiring on November 30, 2008, are consistent with the general good of the state.
3. This Order does not constitute approval of any particular capital or operating expenditure nor the underlying capital structure that Central Vermont Public Service Corporation may implement. Nothing in this approval shall preclude the Department or any other party, or the Board, from reviewing and/or challenging those expenditures and/or the Company's resulting capital structure in any future proceeding.
4. CVPS shall provide the Board and the Department with a complete set of final executed documents when they are available.

Dated at Montpelier, Vermont, this 26th day of September, 2007

s/ James Volz)
) PUBLIC
) SERVICE
s/ David C. Coen) BOARD
) OF
) VERMONT
s/ John D. Burke)

OFFICE OF THE CLERK

FILED: SEPTEMBER 26, 2007

ATTEST: S/ SUSAN M. HUDSON
CLERK OF THE BOARD

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.